

BARBADOS

1. General trends

Barbados has struggled to recover from the aftermath of the 2008/09 global economic crisis. However, a dynamic turnaround in the tourism sector in 2015 produced growth of 0.8%, compared with 0.2% in 2014. Stopover arrivals were up as much as 15%, accompanied by increases in visitor arrivals of 25.3% from the United States, 14.0% from Canada and 13.4% from the United Kingdom. However, growth in all other sectors remained subdued: the construction sector was restricted by delayed infrastructure projects; the international business and financial sector continues to grapple with tighter global regulations; and manufacturing is in need of restructuring as it continues to underperform. GDP growth is projected at 1.6% for 2016, based on the continued expansion of the tourism sector and an uptick in construction as work begins on delayed projects and planned government capital works.

The government's fiscal consolidation efforts have been slow to achieve the expected results. The fiscal deficit widened from 6.9% of GDP in the fiscal year 2014/15 to 7.3% of GDP for the fiscal year 2015/16, well above the government's target of 4.0% of GDP. The lack of progress made in reducing the deficit is partly responsible for the downgrade of Barbados' government bond and issuer ratings to Caa1 by the international credit rating agency Moody's, with a revised outlook from negative to stable. Central government debt expanded from 99.9% of GDP in 2014 to 106.8% of GDP in 2015. Meanwhile, the current account deficit narrowed from 9.9% of GDP to 7.2% of GDP, as low oil prices led to a 7% drop in imports.

In 2015, average monthly inflation stood at -1.1% owing to low oil prices and weak domestic demand, raising concerns about the real debt burden and a possible economic slowdown. Unemployment dipped to 11.3% in 2015 (down from 12.3% in 2014) and is expected to decline further in 2016, thanks to gains in airlift capacity and the anticipated rebound in the construction sector. Economic policy currently focuses on achieving medium-term fiscal consolidation goals; pursuing institutional reforms; expanding and developing tourism; facilitating business; and addressing issues identified by the Financial Stability Board in the international business and financial sector.

2. Economic policy

(a) Fiscal policy

The government's fiscal consolidation efforts continued in 2015, with the proposal of several new taxes that sought to bring the fiscal deficit down to 4% of GDP by the end of the fiscal year 2015/16, after having peaked at 11.0% of GDP in the fiscal year 2013/14. However, the expected results of these reforms have yet to materialize, owing to delays in the implementation of new tax measures and slow progress in the reform of State-owned enterprises. Consequently, the fiscal deficit expanded to 7.3% of GDP for the fiscal year 2015/16, from 6.9% in the fiscal year 2014/15, which was well above the government's target. In turn, central government debt expanded from 99.9% of GDP in 2014 to 106.8% of GDP in 2015.

Total revenue grew by a mere 2.6% year-on-year to stand at 2.6 billion Barbados dollars (BDS\$). Direct taxes were up by 4.2% and indirect taxes by 3.6%; however, a 67.7% plunge in grants offset these

gains. Current expenditure also increased by 2.9% to BDS\$ 3.0 billion during the fiscal year 2015/16. Notwithstanding the 2.8% fall in wages and salaries—a consequence of the retrenchment of 3,000 public sector workers in 2014—current expenditure increased because subsidies went up by 18.4%, transfers to individuals by 9.4%, and transfers to public institutions by 3.7%. In addition, capital expenditure and net lending increased by 15.1%. The fiscal deficit was financed partly by an advance from the Central Bank of Barbados for BDS\$ 238 million from additional liquidity accumulated by commercial banks, together with a further BDS\$ 190 million of newly created money provided by the Central Bank. The fiscal deficit for 2016/17 is projected to stand at 5% of GDP.

The fiscal climate in Barbados has affected its standing in the international markets. In early 2016, the international credit rating agency Moody's downgraded the country's government bond rating and issuer rating to Caa1, but revised its outlook from negative to stable. The reasons given for the downgrade were slow progress towards achieving fiscal consolidation consistent with a sustainable debt trajectory, and a low level of foreign exchange reserves and weak funding conditions. Further fiscal consolidation measures are expected in the upcoming 2016/17 budget, with a focus on reform as pressures intensify to bring the deficit down to manageable levels in the medium term.

(b) Monetary and exchange-rate policy

The Central Bank of Barbados maintained an accommodative stance in 2015 in an effort to stimulate the economy. As a result, interest rates declined and the Treasury bill rate, currently used as the benchmark to guide interest rates, decreased by 0.6 percentage points to 1.8%. Following the Central Bank's decision in 2015 to no longer set the minimum savings rate, which had been 2.5%, the average deposit rate dipped to 0.4%, owing to excess liquidity in the system. In addition, the average loan rate edged down by 0.3 percentage points to 6.8%. Low interest rates were also reflected in the level of inflation observed in 2015, averaging -1.1% after falling from 1.9% in 2014. The excess liquidity ratio also increased by 5.0 percentage points to 25.3% year-on-year as of December. There was, however, a slight downward adjustment in the non-performing loans ratio from 11.5% to 10.8% between 2014 and 2015. Despite falling interest rates, credit to the private sector remained sluggish, dipping a further 1.1% in 2015 after falling by 6.6% in 2014.

The Central Bank of Barbados remains firm in its support of the exchange rate of BDS\$ 2 to the United States dollar by maintaining adequate international reserves. These reserves stood at BDS\$ 926.8 million (representing 13.5 weeks of import cover) in December 2015, the lowest level of recent years, but above the recommended import cover threshold of 12 weeks. By the end of March 2016, reserves had increased to BDS\$ 940.3 million, representing 14 weeks of import cover.

(c) Other policies

Medium-term policy actions to diversify the tourism sector, facilitate business transactions, promote alternative energy sources and reform public institutions are under consideration. The government continues to develop the tourism sector by diversifying its tourism product offerings in an effort to appeal to a wider range of visitors and to focus more on heritage and preservation. In particular, a greater push is being made to make inroads into the Latin American and United States markets.

Although falling oil prices have lessened demand for renewable energy sources, the authorities are looking to develop the sector by increasing access to finance and establishing a floor price for renewable fuels in order to reassure partners.

With fiscal consolidation high on the agenda, institutional reform and greater efficiency in the public sector are the focus of attention. It is expected that the Customs and Excise Department will be merged into the Barbados Revenue Authority to facilitate greater tax compliance and, by extension, increased revenue collection.

3. The main variables

(a) The external sector

The tourism sector continues to be the largest foreign exchange earner for Barbados; its performance in 2015 spearheaded the country's return to growth and will continue to do so in 2016. Tourism activity rebounded to pre-crisis levels in 2015, with an increase of 13% in airlift and 5% in cruise arrivals. Long-stay arrivals are already up by 7% in the first quarter of 2016, signalling the potential for further growth in the remainder of the year. The international business and financial services sector is currently in an adjustment period as regulation of offshore centres intensifies, providing limited short-term growth potential.

The balance of payments recorded an overall deficit of US\$ 62.8 million, or 1.4% of GDP, in 2015, a marginal increase from US\$ 45.8 million (1.1% of GDP) in 2014. Low oil prices fuelled a 7% drop in imports, which was the main factor contributing to the narrowing of the current account deficit from 9.9% of GDP to 7.2%. However, there is the potential for the deficit to widen again in 2016, as oil prices are expected to rally and export growth to stagnate. Meanwhile, significantly lower public and private inflows during 2015 had a notable impact on the capital account, which had contracted by 68% by the end of 2015. Furthermore, major declines in foreign direct investment in the country led to a 56.7% decrease in the financial account. This in turn translated into a 37% fall in international reserves.

(b) Economic activity

The economy of Barbados appears to have turned a corner after achieving modest positive growth of 0.8% in 2015, compared with 0.2% in 2014. Tourism rallied in 2015 and remains the main driver of economic growth with slight spillovers into retail, business and other services sectors. Tourism receipts grew by 5%, with overall stopovers up by as much as 15%, led by double-digit growth in major source markets: arrivals from the United States were up by 25.3%, Canada by 14.0% and the United Kingdom by 13.4%. These successes continued into the first quarter of 2016, as long-stay arrivals increased by 7%, with growth of 13.1% in the outbound market of the United States, 9.8% in that of the United Kingdom and 34.2% in the market of Trinidad and Tobago. Despite this, value added in all other sectors was subdued compared with the tourism sector.

Growth in the construction sector was stymied by delays in major tourism-related infrastructure projects. However, projects, such as the Sam Lord's Castle resort and the expansion of the Sandals resort, are scheduled to break ground by the second half of 2016, while construction work on a new Hyatt hotel is expected to commence before the end of the year. Thanks to these major projects and the government's capital works plans, the construction sector is expected to pick up in 2016.

Financial and other services grew by just 1.1% in 2015 and remained stagnant in the first quarter of 2016. More specifically, the international business sector has encountered major difficulties as global banking regulations are tightened and concessions reduced. No new international banks were licensed in 2015 and two banks closed operations. Recovery in this sector is contingent on reforms aimed at fostering greater transparency, in an effort to help overcome the country's reputational challenges as a tax haven.

Performance in the manufacturing sector has been declining steadily for many years and dropped by a further 2.2% in 2015. The prospects for 2016 are no better given the impact on many small manufacturing companies of stricter international regulations, which require exporters to modernize their facilities. Meanwhile, growth in the agricultural sector was up slightly, by 2.1%, amid efforts to diversify the industry.

ECLAC projects GDP growth of 1.6% in 2016. This outlook is based primarily on continued growth in the tourism sector, bolstered by increased hotel, port and airlift capacity. Gains in the tourism sector will invariably have spillover effects on construction, which is expected to reap rewards from major hotel infrastructure investments that are in the pipeline and planned government capital works projects. Other sectors expected to benefit include retail, business and other services. These projections are subject to downside risks, including the government's fiscal limitations, unfavourable external conditions in key tourism markets, delays in major infrastructure projects and possible de-risking in the international business and financial sector.

(c) Prices, wages and employment

The unemployment rate averaged 11.3% in 2015, falling for the first time since the 2008/09 global economic crisis from its 2014 peak of 12.3%. This decline hinged primarily on the turnaround in the tourism sector and its spillover effects on other service sectors. The highest unemployment rates were recorded in construction, mining and quarrying owing to delayed tourism-based infrastructure projects. Unemployment is expected to decline further in 2016, as airlift capacity was already up in the first quarter of the year and large-scale construction projects will break ground in the second half of 2016.

The average monthly inflation rate stood at -1.1% in 2015, compared with 1.9% in 2014. Falling consumer prices, the result of declining international fuel prices and weak domestic demand, contributed to the observed deflation, despite higher prices for food and education. Deflation remained at -0.6% in the first quarter of 2016, which raises concerns about the real debt burden and a possible economic slowdown.

Public sector wages remained stable in 2015 as the government's two-year wage freeze drew to an end. Given the focus on fiscal prudence, further consideration is being given to a 10% pay cut for parliamentarians and some senior civil servants in 2016, in the midst of intensifying demands from trade unions for higher wages.

Table 1
BARBADOS: MAIN ECONOMIC INDICATORS

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Annual growth rates b/									
Gross domestic product	1.7	0.3	-1.5	0.3	0.8	0.3	-0.1	0.2	0.8
Per capita gross domestic product	1.3	-0.1	-1.9	-0.1	0.4	0.0	-0.4	-0.1	0.5
Gross domestic product, by sector									
Agriculture, livestock, hunting, forestry and fishing	2.3	0.0	2.8	-6.1	-6.3	2.8	2.8	-2.6	...
Mining and quarrying	-6.2	-7.7	-36.9	9.4	-13.8	-7.6	-15.6	20.5	...
Manufacturing	-1.1	-2.3	-12.2	-4.3	-5.3	-6.8	2.2	-3.0	...
Electricity, gas and water	1.2	-0.2	0.7	2.1	-1.6	0.5	-0.8	0.1	...
Construction	0.0	-5.2	-18.2	-9.5	10.5	-7.6	-11.8	-1.7	...
Wholesale and retail commerce, restaurants and hotels	-1.1	-0.3	-3.5	2.8	0.0	-1.0	0.5	0.7	...
Transport, storage and communications	6.0	3.0	8.2	0.1	0.5	2.0	0.9	0.4	...
Community, social and personal services	2.9	3.0	3.0	1.0	3.0	3.5	1.4	0.4	...
Millions of dollars									
Balance of payments									
Current account balance	-243	-485	-305	-254	-558	-402	-397	-431	-315
Goods balance	-1,171	-1,343	-985	-1,077	-879	-862	-895	-860	-737
Exports, f.o.b.	531	490	381	431	849	826	786	792	801
Imports, f.o.b.	-1,702	-1,833	-1,366	-1,507	-1,729	-1,688	-1,681	-1,652	-1,537
Services trade balance	2,392	2,549	2,208	2,361	1,767	1,613	1,639	1,566	1,621
Income balance	-188	-246	-190	-112	-300	-172	-195	-197	-213
Net current transfers	110	94	73	72	169	82	83	-14	2
Capital and financial balance c/	421	382	372	228	554	423	240	386	252
Net foreign direct investment	559	689	484	747	758	186	46	791	335
Other capital movements	-138	-307	-111	-519	-204	237	240	386	252
Overall balance	178	-103	67	-27	-4	21	-157	-46	-63
Variation in reserve assets d/	-178	103	-67	27	4	-21	157	46	63
Other external-sector indicators									
Real effective exchange rate (index: 2005=100) e/	98.7	97.7	93.3	89.5	90.5	89.5	89.5	89.9	89.4
Net resource transfer (millions of dollars)	233	136	182	116	254	251	45	188	39
Total gross external debt (millions of dollars)	997	989	1,198	1,359	1,385	1,322	1,434	1,507	1,430
Average annual rates									
Employment									
Labour force participation rate	67.8	67.6	67.0	66.6	67.6	66.2	66.7	63.8	65.1
Unemployment rate f/	7.4	8.1	10.0	10.8	11.2	11.6	11.6	12.3	11.3
Annual percentages									
Prices									
Variation in consumer prices (December-December)	4.7	7.3	4.4	6.5	9.6	2.4	1.1	2.3	-2.5
Nominal deposit rate g/	5.1	4.5	2.9	2.7	2.7	2.5	2.5	2.5	1.3
Nominal lending rate h/	10.7	10.4	9.8	9.5	9.3	8.7	8.5	8.6	6.9
Percentajes of GDP									
Central government i/									
Total revenue	27.4	28.6	25.2	25.6	29.3	28.5	27.3	28.8	29.1
Tax revenue	25.9	26.4	23.4	24.4	26.9	26.0	25.2	26.7	27.4
Total expenditure	30.8	33.5	32.5	34.4	33.7	37.1	38.5	35.7	36.4
Current expenditure	27.6	30.7	30.5	32.8	32.3	35.7	36.5	33.5	33.9
Interest	3.8	4.4	4.7	5.7	6.1	6.6	7.1	7.6	7.5
Capital expenditure	3.2	2.8	1.9	1.5	1.4	1.4	2.0	2.2	2.5
Primary balance	0.4	-0.5	-2.5	-3.0	1.6	-2.0	-4.1	0.7	0.2
Overall balance	-3.4	-4.9	-7.2	-8.7	-4.4	-8.6	-11.2	-6.9	-7.3
Non-financial public sector debt	62.4	67.2	76.0	87.7	93.0	96.2	106.1	109.4	110.3

Table 1 (concluded)

	2007	2008	2009	2010	2011	2012	2013	2014	2015 a/
Money and credit	Percentages of GDP, end-of-year stocks								
Domestic credit	68.4	75.4	76.2	76.0	78.5	88.1	94.4	91.2	100.2
To the public sector	13.1	14.9	15.8	14.2	15.7	20.8	28.5	29.3	37.7
To the private sector	55.2	60.6	60.4	61.9	62.8	67.4	65.9	61.9	62.5
Monetary base	12.3	12.5	12.2	10.8	13.2	16.7	16.1	17.6	22.6
M2	102.3	100.9	98.1	100.6	98.5	105.9	105.7	103.6	110.1

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Based on figures in local currency at constant 1974 prices.

c/ Includes errors and omissions.

d/ A minus sign (-) indicates an increase in reserve assets.

e/ Annual average, weighted by the value of goods exports and imports.

f/ Includes hidden unemployment. Nationwide total.

g/ Weighted average rate of deposit rates.

h/ Lending rate, weighted average.

i/ Fiscal years, from April 1 to March 31.

Table 2
BARBADOS: MAIN QUARTERLY INDICATORS

	2014				2015				2016	
	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2	Q.3	Q.4	Q.1	Q.2 a/
Gross international reserves (millions of dollars)	486	491	458	450	478	499	467	431	441	455 b/
Real effective exchange rate (index: 2005=100) c/	90.5	90.5	89.7	88.7	89.5	89.7	88.9	89.6	91.6	91.4 d/
Consumer prices (12-month percentage variation)	1.2	1.9	2.0	2.3	-0.8	0.1	-1.1	-2.5
Average nominal exchange rate (Barbados dollars per dollar)	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Nominal interest rates (average annualized percentages)										
Deposit rate e/	2.5	2.5	2.5	2.5	2.5	1.6	0.7	0.5	0.4	...
Lending rate f/	8.6	8.5	8.5	8.6	7.0	7.0	6.9	6.8	6.8	...
Monetary policy rates	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	...
Domestic credit (variation from same quarter of preceding year)	5.7	5.6	0.8	-2.6	-0.6	0.1	4.2	9.0	8.9	9.7 b/
Non-performing loans as a percentage of total credit	10.5	12.0	12.2	11.5	11.4	11.0	10.8	10.6	10.0	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

a/ Preliminary figures.

b/ Figures as of April.

c/ Quarterly average, weighted by the value of goods exports and imports.

d/ Figures as of May.

e/ Weighted average rate of deposit rates.

f/ Lending rate, weighted average.